



ALBUQUERQUE DEVELOPMENT COMMISSION

COMMISSION MEMBERS PRESENT:

Alex Romero, Chair
Jeanette Baca
Samuel K. Collins
Aaron Forrester
Archie Garcia

COMMISSION MEMBERS EXCUSED:

CITY STAFF PRESENT:

Deirdre Firth – Economic Dev. Division
Yolanda Aragon – MRA

OTHERS PRESENT:

Duane Brown – Modrall Sperling
Todd Workman – SC & H
Adam Gushard - EMCORE
David Caruana - EMCORE
Jennifer Martinez - AED
Jim Clinch – Sandia Science & Technology
Parvin Van Enger – SC & H

Minutes of March 19, 2008

1) Call to Order:

Commissioner Romero called the meeting to order at 3:05pm.

2) Changes and/or Additions to the Agenda:

Commissioner Romero asked if there were any changes and/or additions to the Agenda.

There were none.

3) Approval of Minutes:

Commissioner Romero wanted the record to reflect that there were no minutes for the February 20, 2008 meeting because it was only a study session.

4) Announcements:

There were none.

5) Public Comments:

There were none.

6) IRB 08-01: EMCORE Corporation Project – Deirdre Firth – Department of Economic Development

Deirdre Firth, Manager, Economic Development Division: Ms. Firth explained that EMCORE Corporation is asking for \$27 million in IRBs to increase its production capacity by acquiring machinery and equipment and making related supporting interior renovations necessary to support the growth in the demand of EMCORE'S photovoltaic (solar) products. The site is located at 10420 Research Rd. SE, at the corner of Eubank Boulevard and Research Rd. in the Sandia Science and Technology Park, a 200+ acre master-planned research park.

In 1997 EMCORE acquired Micro Optical Devices, Inc., (MODE) a company which was founded in Albuquerque in January 1995 with technology from Sandia National Laboratories. MODE was a market leader in the design and development of high-quality optical components and subsystems based on vertical cavity surface-emitting laser technology, which offers superior performance and higher efficiency over conventional compound semiconductor technologies. Following its acquisition of MODE, EMCORE decided to continue to operate MODE in Albuquerque and, in addition, because of its direct relationship with Sandia National Laboratories, increased their investment locally by locating additional EMCORE operations in Albuquerque. EMCORE moved its world corporate headquarters to Albuquerque in October 2006, providing additional jobs that were not expected in 2000.

In 2000, at EMCORE'S request, the City issued an additional \$55 million in City of Albuquerque Industrial Revenue Bonds. The 2000 Bonds enabled EMCORE to expand the project for which the 1998 Bonds were issued, which resulted in the employment of approximately 250 persons by 2003, and to further expand its facilities by constructing and equipping a 100,000 square foot building on a ten-acre parcel leased from the State.

EMCORE currently employs 475 persons with salaries ranging from \$25,000 to \$250,000, with an average salary of \$94,700. The total current annual payroll is approximately \$45 million, and is expected to grow another \$2.9 million with this project.

The present zoning is SU-1 IP (Special Use – Industrial Park), which is the zoning of the Company's existing facility. Since the Project only involves interior renovations and the installation of equipment, that zoning will accommodate the development of the proposed project. The project site adjoins the area designated as the Developing Urban Area on the Comprehensive Plan. The proposed project would be consistent with the Comprehensive Plan, and conforms to the Master Plan for the Sandia Science and Technology Park adopted by the City. The site is adjacent to Kirtland Air Force Base to the west. There is vacant land to the east, and to the north Analytical Solutions, Inc., Team Technologies, and certain Sandia Labs operations. Approximately a quarter mile to the east is Willow Wood, a residential subdivision.

The project will directly contribute to the production of renewable energy as it will enable EMCORE to increase production capacity to meet existing and expected future demand for its solar products, a direct source of renewable energy. Terrestrial (land based) solar power generation has emerged as one of the most rapidly expanding renewable energy sources due to certain advantages solar power holds over other energy sources. This includes reduced environmental impact, elimination of fuel price risk, installation flexibility, scalability, distributed power generation and reliability.

No demolition of any existing building would be involved in the project and no relocation of any homes or businesses would be involved either.

According to the project plan, there is one known competitor in the Albuquerque area for one particular part of EMCORE'S business line. That company is Advent Solar, which also has benefited and financed capital expenditures through industrial revenue bonds. EMCORE does not believe the 2008 project will have an adverse effect or offer an unfair competitive advantage over existing businesses in Albuquerque.

EMCORE estimates that it will create approximately 60 full-time jobs as a result of this project. The jobs will consist primarily of 44 technicians, five supervisors, one manager, and ten support personnel ranging in pay from \$26,000 to approximately \$163,000. The average annual salary would be \$48,333 in current dollars.

The company's employees will receive the Company's standard benefit package for its full-time employees which currently includes health insurance, and the Company pays 80% for employees, and dental insurance, a 401(k) retirement plan, with the Company matching 50% of the employee's contribution, up to 6% of the employee's salary, payable in stock of EMCORE, long term disability insurance, life insurance, tuition reimbursement after one year of employment, and paid vacation, holidays, sick days and personal days. The annual cost to the company of the benefit package, including social security payments, is approximately 33% of payroll.

Additionally the Company has stated that it hopes to fill as many positions as possible with local residents and is conducting local job fairs to help meet that objective. The Company anticipates that it will be able to fill 70% to 80% of its new positions locally.

The sources and use of funds for the Project will be as follows:

Sources

Bonds	\$27,000,000
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Uses

Machinery & Equipment	\$25,500,000
Related Interior Renovations	\$ 1,500,000

<u>Total</u>	\$27,000,000
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In connection with the 2000 Project, EMCORE estimated that employment by 2004 would be approximately 491. While employment did not reach that level because of setbacks in the telecommunications sector and the developing nature of its photovoltaic business, EMCORE did move its world corporate headquarters to Albuquerque in October 2006 providing additional jobs that were not expected in 2000. They had hoped to be at 491 four years ago, they are now at 475, but that was because not of any decision to cut back on employment, but rather it had to do with negative changes in global markets. However, the company did keep the City informed so that the City was aware of what was happening.

The Fiscal Impact Analysis is conducted by the UNM Bureau of Business and Economic Research and it takes a look at the fiscal impacts of both the City level and the State level. It takes into account the revenues that are generated from the company itself, the direct expenditures, the indirect expenditures, the direct employees, indirect employees, construction, taxes, and what forgone property and sales taxes might be related to the project. The property tax abatement associated with the equipment and the compensating tax abatement that they get on the purchase of the equipment by using Industrial Revenue Bonds are included. They also calculate the per capita cost for what they estimate each new employee will bring to the General Fund, which means every individual's share of police, fire, cultural services, zoo and other City services are included.

This evaluation, over the 20 year term of the Bonds is a positive \$2,457,000 dollars. However, the State fiscal impact reflects a different pattern, although in the end it comes out a positive \$288,000 dollars. The difference as to why the City's fiscal impact is much more positive in relation to the State's has mostly to do with sales taxes. The State collects compensating tax on the equipment, so it is the State model that reflects the impact on the foregone compensating tax. In addition, the State costs carry over the per capita expenses on the State as well as the continuation of the other taxes that are foregone on the State level. Usually they do see a cumulative negative impact the first few years of a project because the tax abatements are generally loaded on the front, but through the course of the project they see the positive return. This project carries over a little longer than they usually see on the State level, but it is positive on the City's side throughout the entire project and if you combine the two it reaches a break even point in about 8 years time.

Commissioner Romero asked Ms. Firth to walk everyone through the part of the Fiscal Impact Analysis for the year 2010.

Ms. Firth explained that it would be composed of a couple of items. The first item would be a per capita State cost similar to a per capita City cost in terms of State General Fund expenditures. The second and largest factor is the State's program called the Investment Tax Credit, and that credit is equal to approximately 5% of the value of the purchase of manufacturing equipment. So there is a 5% credit on the tax return if the company is a manufacturer and they purchase manufacturing equipment. The company is eligible for that whether or not they receive an IRB, so that 5% value can carry over into subsequent years, and that is where the additional impact on the State level is, through the Investment Tax Credit.

Commissioner Romero asked what else goes into the figures of the costs in the first three years.

Ms. Firth explained that another thing that EMCORE also has a carry over of net operating losses on their State tax, so that is included in the cost estimates.

Commissioner Romero stated that one of the things that he does not recall is that when they looked at the initial IRB request and then the second one in 2000, was the same fiscal impact model used or has it changed.

Ms. Firth stated that the model has changed and has been updated, and BBER added the health insurance premium tax. She is not sure if the Investment Tax Credit was initiated, certainly not for the first IRB and possibly not for the second. Every year the City has BBER work to update the model reflecting changes in terms of City revenues and projections, as well.

Commissioner Romero asked if BBER knows what these projections were in the year 2010 and less than that in terms of the State.

Ms. Firth stated she did not look at the detailed inputs related to the impact on the State level. She did check on employment, payroll and wages and how those compared. They did compare positively, but she did not compare the model to what was done in the year 2000.

Ms. Firth stated that EMCORE has met all the criteria for Industrial Revenue Bonds and their findings are as follows:

1. EMCORE would make positive contributions to the local economy and community;
2. EMCORE would comply with the adopted City plans and policies; and
3. EMCORE would adequately meet the evaluation criteria established by the City.

Ms. Firth stated that based on the above findings, staff recommends approval of IRB 08-01 as proposed in the project plan.

Commissioner Romero asked the Commissioners if they had any questions.

Commissioner Garcia stated that on page 2 of the Project Plan it states that when the Company was issued the \$55,000,000 in 1998 that this was to enable the company to acquire the land and then in the 2000 issuance of the additional \$55,000,000 it states that this land is leased from the State, then on page 4, it states that the land and improvements are currently owned by the City.

Ms. Firth explained that there are two separate parcels. The first one in 1998 was a fee simple parcel that EMCORE purchased and when they purchase it with the proceeds of Industrial Revenue Bonds, technically the City takes title and that is the parcel that is exempt from taxes because the City has title to the property. The 2000 bonds were for an adjoining parcel that was owned by the State Land Office and they do not sell fee title, they only lease their land. So parcel A was purchased utilizing IRBs and parcel B was leased from the State Land Office. This project is for new equipment going into parcel A.

Commissioner Garcia stated that when the analysis was done in 1998 as well as 2000, he is assuming that there was a projection in terms of the abatement of the property tax that was included in the fiscal analysis.

Ms. Firth stated that was correct.

Commissioner Garcia was wondering if that was duplicated in the fiscal analysis that they have now.

Ms. Firth explained that the fiscal impact analysis that they have now only looks at the additional net increase in abatement. It is not added on to the already foregone taxes and it is only for this request.

Commissioner Garcia asked about the \$4 million used for purchases within local companies. Had this been a commitment in the past as well for the use of the other \$110 million?

Ms. Firth stated that they have each IRB recipient give them an estimate of local goods and services to be purchased. The City requires that the companies report annually to them what their purchases of goods and services are subject to the New Mexico Gross Receipts Tax, and EDD presents the annual analysis for the Commissioners in the summary total.

Commissioner Garcia asked if she knew what EMCORE has done from 1998, 2000 to present.

Ms. Firth stated that she did not have those numbers with her today, but she would be happy to get those for him.

Commissioner Romero asked if there were any other questions. There were none, so he asked the first speaker to come up.

Adam Gushard, Interim Financial Officer, EMCORE: Mr. Gushard explained that he has been with the company for the past 11 years. He stated that they moved their corporate headquarters here to Albuquerque, which includes 475 people. He would be happy to answer any questions that the Commissioners may have.

Commissioner Collins asked what the anticipated life for the \$25 million dollar equipment was.

Mr. Gushard explained that the average depreciable life would be around 5 years, but the equipment actually lasts much longer than that. They have equipment that has been running for 10 to 15 years.

Commissioner Romero stated that on page 6, item 4, “the jobs created in connection with this 2008 project will match the skills of the current residents” and he wasn’t sure what that meant.

Ms. Firth explained that they wanted to make sure that there are job opportunities for local residents in their IRB applicants. EMCORE feels that there would be sufficient personnel available in the community to fill those jobs.

Commissioner Romero asked the next speaker to come up.

Duane Brown, Modrall/Sperling: Mr. Brown is the bond counsel for EMCORE and wanted to thank the Commission, say he is in support of the project, and offer to answer questions.

Todd Workman, SC & H, advisors to EMCORE: Mr. Workman also is in support of the project.

Jennifer Martinez, Albuquerque Economic Development: Ms. Martinez has worked with EMCORE in the past and is a strong supporter of this project.

Jim Clinch, Program Leader of Sandia Science & Technology Park: Mr. Clinch stated that they are very proud of EMCORE and he is a big supporter of the company and the IRB request.

Commissioner Romero stated that the only thing that might come up later on is the fiscal impact on the State level and he thinks that Ms. Firth may need to do some additional research because what the Commission is used to seeing is an earlier positive impact on both the City and State.

He realizes that when you combine the City and State impacts halfway through the IRB it is a positive impact, and there is no question as to the contribution of the company and that it is an absolutely outstanding company to have in Albuquerque. However, as this moves forward, Ms. Firth might want to have a conversation with somebody in the event that the question regarding the State fiscal impact comes up, they can address that issue.

Commissioner Romero made a motion to approve IRB 08-01 EMCORE Corporation Project.

Commissioner Garcia seconded the motion.

The motion carried unanimously.

7) Old Business

There was no old business.

8) New Business

There was no new business.

9) Adjourn

The meeting was adjourned at 4:00pm.